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MONTANA TEACHERS' RETIREMENT SYSTEM

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Handbook of
Information
July 1, 1985

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THE TEACHERS' RETIREMENT BOARD

MEMBER	TERM EXPIRES
LEROY CORBIN Teacher, Butte	July 1, 1986
KENNETH MESKE..... Teacher, Great Falls	July 1, 1987
JAMES E. BURKE Realtor, Livingston	July 1, 1988
J. THOMAS RYAN Retired Member, Helena	July 1, 1989
J. WILLIAM KEARNS Banker, Townsend	July 1, 1989
EDWARD F. ARGENBRIGHT Superintendent of Public Instruction	Ex Officio

ADMINISTRATIVE OFFICERS

F. ROBERT JOHNSON	Executive Secretary
MARY L. ANDRIDGE	Asst. Executive Secretary

FORWARD

The Montana Teachers' Retirement System was established by state law in 1937. The System has grown from its initial enrollment of 3,367 members to over 15,000 active members and now has assets in excess of \$350,000,000. A total of 5,477 members and beneficiaries receive retirement, disability, or survivor benefits of over \$31,000,000 each year.

The benefits provided by the System are jointly funded by each member and his employer. Over the years many changes and improvements have been enacted through legislation. In order to maintain the actuarial soundness of the System, increases in the employer's contribution rate has increased with each major improvement since 1945 to the current rate of 7.428%. The employee rate remained at 5% from 1937 to 1973 when it increased to 5 1/8%. Effective July 1, 1975, the employee contribution rate increased to 6 1/8%, and on July 1, 1977 to 6 3/16%. On July 1, 1983 the rate was increased to 7.044%.

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ADMINISTRATION

The governing body of the Teachers' Retirement System of the State of Montana is the Retirement Board whose names are listed on page i of this booklet.

The Board is composed of the Superintendent of Public Instruction, two members appointed from the teaching profession who are members of the System, two persons appointed as representatives of the public, and one person who is a retired teacher.

The Board employs administrative officers and a staff to conduct the business of the System.

The State Investment Board invests the funds of the System in various securities permitted by law. These investments are segregated from other state funds. The Treasury Division of the Department of Administration is the custodian of the securities owned by the System, and of the collected Retirement System monies.

The powers and duties of the Retirement Board are as follows:

- (1) Establish rules and regulations necessary for the proper administration and operation of the Retirement System.
- (2) Elect a chairman from its membership.
- (3) Appoint a secretary who may be one of its members.
- (4) Employ technical or administrative employees who are necessary for the Retirement System.
- (5) Approve or disapprove all expenditures necessary for the proper operation of the Retirement System.
- (6) Keep a record of all its proceedings which shall be open to public inspection.
- (7) Publish a biennial report by January 1 of each year the legislature meets, which reports in detail the fiscal transactions for the two fiscal years immediately preceding the report due date, the amount of accumu-

lated cash and securities of the System, and the last fiscal year balance sheet showing the assets and liabilities of the Retirement System, and submit the biennial report to the Governor and furnish copies to the legislature.

- (8) When the Retirement Board considers it necessary, designate a medical board to be composed of three physicians who are not eligible to participate in the Retirement System to investigate and report to the Retirement Board on all medical matters relating to the administration of the Retirement System.
- (9) Keep in convenient form that data which is necessary for actuarial valuation of the various funds of the Retirement System and for checking the experience of the Retirement System.
- (10) Designate an actuary to assist the Retirement Board with the technical actuarial aspects of the Retirement System, which includes establishing mortality and service tables and making an actuarial investigation at least once every five years into the mortality, service, and compensation experience of the members and beneficiaries of the Retirement System.
- (11) Prepare an annual valuation of the assets and liabilities of the Retirement System.
- (12) Determine the eligibility of a person to become a member of the Retirement System.
- (13) Prescribe a form for membership application which will provide adequate and necessary information for the proper operation of the Retirement System.
- (14) Adopt policies for the determination of creditable service in the Retirement System implementing the following guidelines:
 - (a) One year's creditable service shall be awarded for each year of full-time service, outside of vacation periods, but no more than one year's creditable service

shall be awarded for service during the same school or fiscal year.

(b) Not more than one month's creditable service shall be awarded for one or more continuous months of absence without pay.

- (15) Grant retirement disability, and other benefits under the provisions of 19-4-701 MCA.
- (16) Annually determine the rate of regular interest as prescribed in 19-4-501 MCA.
- (17) Establish and maintain the funds of the Retirement System in accordance with the provisions of 19-4-601 MCA.
- (18) Perform such other duties and functions as are required to properly administer and operate the Retirement System.

MEMBERSHIP

Membership in the Retirement System is compulsory. Excuse from membership can be applied only to a person who teaches less than 30 days during the absence of a regular teacher. 19-4-302 MCA.

Membership applies to all persons employed as teachers, librarians, physical education directors, school nurses, principals, vice-principals, supervisors, superintendents, county superintendents of schools, and any other member of the teaching or professional staff of any public school, elementary school, or high school in the State of Montana, and any member of the administrative, instructional, or scientific staff of the units of the University System. Effective October 1, 1981, employees in an instructional services capacity by special education cooperatives are required to be members. It also applies to any person employed in the office of, or by, the State Superintendent of Public Instruction in duties pertaining to instructional services, and any member of the instructional staffs of various state custodial institutions.

EXEMPTION FROM MEMBERSHIP

At the time of passage of the original law in 1937 and its later amendments to admit the University System, a teacher was permitted to choose membership or nonmembership. In each case, the period of option lasted only three months. Those exercising the option of nonmembership are the only teachers exempt from membership. A list of these teachers is maintained at the Retirement Office.

FULL-TIME SERVICE

"Full-time service" means service which is full-time and which extends over a normal academic year of at least nine months. With respect to those members employed by the Office of the Superintendent of Public Instruction, any other state agency or institution, or the office of a county superintendent, "full-time service" means service which is full-time and which totals at least nine months in any one year. 19-4-101(10) MCA.

PART-TIME SERVICE

"Part-time service" means service which is less than full-time or which totals less than nine months in any one year. Part-time service shall be credited in the proportion that the actual time worked bears to full-time service. 19-4-101(12) MCA.

CONTRIBUTIONS

MEMBER'S SHARE

7.044 percent of your monthly salary is picked up by your employer and is sent to the Retirement System to be credited to your individual account. 19-4-602 MCA.

Effective July 1, 1985, these contributions are pre-tax dollars. In other words, the contributions are deducted before any federal or state income tax is withheld from your wages. Contributions withheld and reported on the July 1985 report and subsequent monthly reports, however, will be taxable if you receive them in the form of a refund. Any

contributions paid after July 1 and which you receive in the form of a monthly retirement benefit would be subject to federal income tax. Voluntary contributions made for the purpose of purchasing previous membership service, out-of-state service, military service, employment while on leave, or private school employment or termination pay contributions are not considered as tax deferred contributions.

EMPLOYER'S SHARE

Your employer currently pays 7.428% of your salary to the Retirement System. This contribution is not allocated to the member, but is placed in a fund which provides that portion of your benefit not funded by your retirement account. 19-4-605 MCA.

INTEREST CREDITS AND CHARGES

Effective July 1, 1981, interest will be computed on each monthly balance at the rate of eight percent, compounded annually. The interest rate is not fixed by law, but is set by the Retirement Board annually in direct relation to the interest earnings of the System.

On redeposit of withdrawals, interest will accrue from July 1, 1971, or from the date of withdrawal, if it was after July 1, 1971.

On the purchase of out-of-state service, interest will accrue from July 1, 1971, or from the date you become eligible to purchase this service, if after July 1, 1971.

On purchase of creditable service while on leave and on military service, interest will accrue from July 1, 1973, or from the date you become eligible to purchase the service, if after July 1, 1973.

On purchase of private school employment, interest will accrue from October 1, 1981 or from the date you become eligible to purchase the service, if after October 1, 1981.

If payment for redeposit of withdrawals or purchase of additional creditable service is made in full before June 30 of the fiscal year in which interest began to accrue, the interest will not be charged.

The chargeable rate of interest will be the same rate set by the Retirement Board to be credited to your retirement account.

VESTED RIGHT

You have a vested right in the Retirement System after the completion of five years of service or part time service which totals 5 years of full time service in Montana for which contributions have been paid. With a vested right, you are entitled to retirement, disability, and death benefits as described below, if you are otherwise qualified.

If you cease to be employed in a position which would qualify you for membership in the System, you will retain your vested right, provided you do not withdraw your contributions from the System.

BENEFITS

The Teachers' Retirement System provides not only retirement benefits, but also substantial death and disability benefits. The formula from which these three benefits are calculated is:

$$\text{ANNUAL BENEFIT} = \frac{\text{CREDITABLE SERVICE} \times \text{AVERAGE FINAL COMPENSATION}}{60}$$

(This annual benefit will be paid in 12 equal monthly installments.)

The formula is independent of sex, age, and the amount of your retirement account, and depends only on your creditable service and final average compensation, which are determined as follows:

Average Final Compensation means the average of the "earned compensation" of a member during the three consecutive years of full-time service which yield the highest average and on which contributions have been made.

Note:

A member should be cautioned that taking leave without pay during the period used in calculating "average final compensation" may result in reducing the salaries used in determining "average final compensation" and a resulting decrease in the monthly retirement benefit. Also, if a member does not complete at least 9 full months of full time employment in each of the 3 high consecutive years utilized in determining "average final compensation" it may result in a different period of time used in calculating "average final compensation" which in turn may result in a reduced benefit.

Earned Compensation means the full compensation, pay or salary actually paid to a member and reported to the retirement system, including amounts paid under a salary reduction agreement to a tax-sheltered annuity or deferred compensation program and the value of any housing provided by the employer. The employer shall fix the value of any housing provided. The term does not include any other amounts paid in kind or fringe benefits not actually paid to a member. The earned compensation of a member who had less than 3 consecutive years of full-time service during the 5 years preceding his retirement is the compensation, pay or salary which he would have earned had his part-time service been full-time service. The earned compensation of a member who is awarded a disability retirement allowance prior to the completion of a full year is the compensation, pay, or salary which he would have received had he completed the full year, except that any termination pay, as defined in subsection (5) (3), received by the member is limited to the amount actually paid and is not the amount he would have earned had he completed the full year.

If the earned compensation includes any ⁽¹⁾termination pay the employee has 3 options: 19-4-101(5) MCA.

- I. Use the total termination pay in the calculation of the average final compensation. The member and the employer shall pay such contributions to the Retirement System as are determined by the Retirement Board to adequately compensate the System for the additional retirement benefit. The contributions must be made at the time the termination pay is received and are calculated as follows:

Employee cost - $2.80\% \times \text{termination pay} \times \text{years of creditable service}$.

Employer cost - $2.95\% \times \text{termination pay} \times \text{years of creditable service}$.

- II. Use a yearly amount of termination pay added to each of the 3 consecutive year's salary used in the calculation of the "average final compensation." The amount of such compensation must be divided by the total number of years of creditable service to determine a yearly amount. The member and the employer must pay the regular contributions on this termination pay.

Example - Assuming \$3,000.00 in termination pay and 25 years of service; $\$3,000.00 \div 25 = \120.00 .

\$120.00 would be added to each of the three salaries used in the calculation of benefits.

- III. Exclude the termination pay from the average final compensation. No contribution is required of either the employee or employer.

⁽¹⁾Termination pay includes any form of termination pay, or any lump sum payment for deferred compensation, sick leave or accumulated vacation credit or any other payment for time not worked other than compensation received while on sick leave or authorized leave of absence.

CREDITABLE SERVICE

Creditable service can be obtained from eight sources. It will generally be to your advantage to obtain as much credit as possible from each of these sources.

Those members joining the System on or after July 1, 1973 may not exceed a total of five (5) years creditable service for out-of-state service, military service, private school employment, or service while on leave.

(1) MEMBERSHIP SERVICE

Membership service consists of all teaching service in Montana since 1937 for which contributions have been paid and which remain on deposit. As noted earlier, five years of such service gives you a vested right in the System.

(2) PRIOR SERVICE

Prior service includes all teaching in Montana prior to September 1, 1937, the date of the establishment of the System. Credit for this service can be obtained at no cost to you provided you have a vested right. Verification of this service is required. Please request forms from this office.

(3) MILITARY SERVICE

Members with a vested right may receive up to four years of military service credit for active service in the Army, Navy, Marine Corps, Air Force and Coast Guard during the Viet Nam Conflict, without cost provided

such active duty was performed between August 5, 1964, and May 7, 1975, both dates inclusive. In order to receive credit for this service you must provide the Teachers' Retirement System with a copy of your military papers indicating your date of entry into active duty and the date of separation.

If you were a member of TRS prior to July 1, 1971 and have a vested right, you may receive credit for active service in the Army, Air Force, Navy, Marines, Merchant Marine or Red Cross, during World War II from October 1940 through June 1947 and the Korean Conflict from June 1950 through January 1955 by submitting a copy of your military papers indicating the date of entry into active duty and the date of separation.

Members whose date of membership or military service does not meet the above conditions may purchase up to two years of active military service provided you have a vested right. The cost is an amount equal to the combined employee-employer rate in effect at the time you become eligible to purchase such service, multiplied by your first full year's teaching salary earned in Montana, following the active service for each year purchased. Interest may be charged on the purchase of this service from the time you become eligible for this purchase.

(4) OUT-OF-STATE TEACHING SERVICE

When you have been credited with five (5) years of membership service following out-of-state teaching service, you may purchase a maximum of five (5) years of out-of-state service provided such service would have been acceptable under the provisions of the law if such service were performed in Montana. The cost is an amount equal to the employee contribution rate in effect at the time you become eligible to purchase such service of your first full year's teaching salary after returning to Montana for each year you wish to receive credit. If you were employed in Montana prior to July 1, 1967, and have not withdrawn your account, you may purchase up to ten (10) years of out-of-state teaching credit provided you have ten (10) years of Montana service following the

out-of-state service. Interest will be charged on purchase of this service from the time you become eligible for purchase.

Individuals who become members of the System on or after July 1, 1979 and have completed five years of membership service following their out-of-state teaching service may purchase the out-of-state service at a cost equal to the combined employee-employer contribution rate in effect at the time of eligibility. This rate would then be multiplied by the first full year's teaching salary in Montana following the out-of-state teaching service to determine the cost per year.

(5) SERVICE WHILE ON LEAVE

You may purchase up to two (2) years service while on leave, conditional upon your having been a member prior to the leave and upon completing five (5) years of active membership in Montana subsequent to your return. The cost is an amount equal to the combined employee-employer rate in effect at the time you become eligible to purchase such service of your first full year's teaching salary following your return for each year purchased. Interest will be charged on the purchase from the time you become eligible for purchase.

(6) REPAYMENTS OF WITHDRAWALS

If you were a member of the System and withdrew your contributions on one or more occasions, you may redeposit the amounts withdrawn and receive credit for the service represented. All withdrawals must be redeposited before credit can be reinstated. You must be a member of the System to redeposit previous withdrawals. Should you desire to repay amounts previously withdrawn, write to this office. You will be notified of the redeposit required and the service that will be reinstated after completing payment. Interest will be charged on redeposits. (See "Interest Credits and Charges" on page 5.)

Periodic payments for all purchasable service will be accepted. Arrangements for payroll deduction must be made through your payroll department.

(7) TRANSFER OF MEMBERSHIP

If you cease teaching and take a position covered by the Public Employees' Retirement System, you may transfer your retirement coverage from the Teachers' Retirement System to the Public Employees' Retirement System by repaying the amount withdrawn plus interest that has accrued to the Public Employees' Retirement System. Conversely, any membership service withdrawn from the Public Employees' Retirement System can be transferred to the Teachers' Retirement System in the same manner. Requests of this nature should be made to the System to which you are currently a member.

(8) PRIVATE SCHOOL EMPLOYMENT

When you have been credited with five (5) full time years of membership service following employment in a private elementary or post secondary school you may purchase up to five (5) years provided the service was of an instructional nature, or employment as an administrative officer or a member of the scientific staff. This does not include students employed by a private elementary, secondary or post secondary school. The cost is an amount equal to the combined employee and employer contribution rate multiplied by your first full years teaching salary in Montana following the private school employment for each year of creditable service. Interest will be charged from the time you become eligible for purchase.

RETIREMENT BENEFITS

If you have ceased teaching in Montana, you may apply for retirement benefits provided:

- (1) You have been credited with full or part-time service of 25 or more years, in which case you are eligible for retirement regardless of age.
- (2) You have at least five (5) years of creditable service, the last five (5) of which shall have been in Montana.

- (3) Any member who has more than five (5) full years but less than 25 years of creditable service, can retire as early as age 50. The normal retirement age is 60, however, a member with less than 25 years of creditable service can retire at age 50 at a reduced benefit. The reduction is one-half of one percent (.5%) for each of the first 60 months the retirement date precedes age 60 or 25 years of service and three-tenths of one percent (.3%) of each month the early retirement is in excess of the first 60 months the early retirement precedes age 60 or 25 years of service.

Please note there is no minimum retirement age for a member who has 25 or more years of creditable service. A member who has less than 25 years of service must wait until age 50 to retire, then at a reduced benefit. For example, an individual who retired at age 50 with 23 years of service would have his/her benefits reduced 12%. (25 years minus 23 years = 2 years or 24 months \times .005 or 12%). A member who retires at age 50 with 15 years of service would experience a reduction of 48%. (Age 60 minus age 50 = 10 years or 120 months. 1st 60 months \times .005 = 30%. 2nd 60 months \times .003 = 18%. Total reduction = 48%). (30% + 18%).

Also, a member receives credit for all service up to the time of retirement. For example, a member who has 40 years of creditable service at the time of retirement would be allowed to use 40 years of creditable service in the calculation of benefits.

The retirement benefit is determined by the formula:

$$\text{RETIREMENT BENEFIT} = \frac{\text{CREDITABLE SERVICE}}{60} \times \text{AVERAGE FINAL COMPENSATION}$$

(see page 20)

RETIREMENT APPLICATION PROCEDURE

A member considering retiring should write or visit the Teachers' Retirement Office, at least three months prior to their retirement and provide the TRS with the following information:

- (1) Current years salary
- (2) The dollar amount of any anticipated termination pay⁽¹⁾ provided by contract such as a lump sum payment for accrued sick leave, vacation pay, or a severance or retirement stipend.
- (3) Beneficiary's birth date
- (4) Date of retirement

The member will then be provided with an estimate of retirement benefits and an application for retirement allowance. Retirement applications for members who retire at the end of a school year are due in the TRS office by June 1 of the year in which the member retires. Members who retire during a school year should submit their applications at least 30 days prior to their effective retirement date. A copy of the members birth certificate is required, and if the member elects an option, a copy of the beneficiary's birth certificate.

It is suggested that if you wish to visit the TRS office that you call or write for an appointment.

⁽¹⁾ see page 8 for definition of termination pay.

EFFECTIVE RETIREMENT DATE

The effective date of your retirement will be:

- (1) July 1 if you retire at the end of a school year, since the school term is considered to be July 1 to June 30.
- (2) The first of the month following the cessation of your teaching if you retire during the school term.
- (3) The first of the month following your 60th birthday, or the first of the month following your 50th birthday if you elect early retirement.

Although retirement benefits accrue from the first of the month, they are paid at the end of the month. Payments are always mailed from Helena on the last working day of each month.

EARNINGS AFTER RETIREMENT

Any retired member may be employed as a part-time or substitute teacher in Montana and may earn without loss of retirement benefits, an amount not to exceed the greater of (1) one-third of the sum of his average final compensation plus normal annual salary increases for teaching personnel employed by the school district, state agency, political subdivision, or university unit that employed the member at the time of retirement or (2) one-third of the median of the average final compensation for members retired during the preceding fiscal year as determined by the retirement board.

Should a retired member employed in a part-time or substitute position covered by the Teachers' Retirement System exceed the amount allowed by law, the monthly retirement benefit will cease the first of the month in which the earnings exceeded the maximum allowed by law.

You are not limited to the amount you earn in any employment that would not qualify you as a member of the System.

DISABILITY BENEFITS

If you become disabled and cannot continue to teach, you may be eligible for disability benefits provided:

- (1) You have a vested right in the System.
- (2) You were an active member at the time of your disability.
- (3) You are declared physically or mentally incapacitated for the further performance of your duties, and that such disability is likely to be permanent. A physician's statement is required.
- (4) The Retirement Board has approved the disability application.

The effective date of the disability benefit will be the first of the month following the date the member terminates membership service. The benefits will continue throughout the continuance of the disability.

The disability benefit is determined by the formula:

DISABILITY BENEFIT = $\frac{\text{CREDITABLE SERVICE}}{60} \times \text{AVERAGE FINAL COMPENSATION}$

The minimum disability benefit will be $\frac{1}{4}$ of the average final compensation. This benefit will be payable during your lifetime while disabled, if the Normal Form benefit is elected. However, in the event of your death prior to receiving benefits equal to your retirement account, the balance would be payable in a lump sum to your beneficiary. Optional forms of payments may be elected (as described later).

If you are receiving disability benefits, you may return to employment provided your earnings and disability benefit do not exceed the greater of your average final compensation or the median salary of those members retired during the preceding fiscal year. Should your earnings and disability benefit exceed the above, your disability benefit will be reduced so that your earnings and disability benefit do not exceed the greater of your average final compensation or the median salary of those members retired during the preceding fiscal year.

From time to time the Retirement Board may require a physician's certification of your continued disability.

PROCEDURE FOR APPLYING FOR A DISABILITY RETIREMENT

A member applying for a disability retirement should write or visit the TRS office and provide the following information:

- (1) Date they will be retiring or date they will be terminated for payroll purposes, if they are drawing sick leave.
- (2) Current years salary
- (3) The dollar amount of any anticipated termination pay⁽¹⁾ provided by contract, such as a lump sum payment for accrued sick leave, vacation pay or a severance or retirement stipend.
- (4) Beneficiary's birth date.

The member will receive an application for disability and an attending physician's statement (to be completed by your doctor), along with an estimate of disability benefits. The application and attending physician's statement must then be submitted to the TRS office for consideration by the TRS Board. The TRS Board meets quarterly, therefore, you should check with the TRS office as to the meeting date, in order to avoid any delay in reviewing your application for disability.

⁽¹⁾ see page 8 for definition of termination pay.

DEATH BENEFIT

If an active member dies, whether or not he had a vested right, his beneficiary may elect to receive a lump sum refund of his personal contributions plus interest. If the member has a vested right, his beneficiary may elect to receive, in lieu of the refund, a survivor's benefit.

The effective date of the survivor's benefit will be the first of the month following the date of the member's death.

For members of the System prior to July 1, 1973, the survivor's benefit is determined by the following formula with adjustment for the age of the beneficiary in relation to the members age at death. If the beneficiary is older, the amount will be larger. If the beneficiary is younger, the amount will be less:

$$\text{SURVIVOR'S BENEFIT} = \frac{\text{CREDITABLE SERVICE}}{60} \times \text{AVERAGE FINAL COMPENSATION}$$

The survivor's benefit for members of the System on July 1, 1973 or after, and who have a vested right would be determined by the above formula and then adjusted for the factors shown under Option A on page 21.

This benefit will be payable during the beneficiary's lifetime and cease upon his death. No optional forms are available.

In addition to this benefit, each surviving child of a deceased member with a vested right who was an active member in the State of Montana within one (1) year prior to his death will receive a child's benefit of \$100.00 per month until the child has attained age 18. The last payment will be made in the month in which age 18 is attained. This also applies to minor children of a retired member.

If a member was active within one (1) year of his death, and has a vested right, his beneficiary will receive a five hundred dollar (\$500.00) death benefit in addition to all other benefits payable.

A beneficiary of a retired member is also entitled to receive a \$500.00 death benefit. In the absence of a designated beneficiary the death benefit will be payable to the estate.

Upon the death of an active member, the TRS office should be notified immediately and the proper forms for applying for the death benefit will then be sent to the beneficiary.

BENEFICIARY OF RECORD

The recipient of any death benefit will be the beneficiary of record on file with the Teachers' Retirement System. Therefore, if you have had a change of beneficiary, please make sure that the proper designation is made on a beneficiary form provided by the Teachers' Retirement System. Forms are available from either your employer or the Teachers' Retirement System. If you are not sure of your beneficiary designation, please check with the Teachers' Retirement System.

OPTIONAL FORMS OF RETIREMENT BENEFITS

There are many forms in which you may elect to receive your retirement or disability benefits.

Once a member elects a retirement option, that option is irrevocable except for the following: Upon written request to the Retirement Board, a retired member, who is receiving an optional retirement allowance, may designate a different beneficiary, select a different option, or convert his optional retirement allowance to a regular retirement or disability allowance if;

- (1) The original beneficiary has died; or
- (2) The member has been divorced from the original beneficiary and the original beneficiary has not been granted the right to receive the optional retirement allowance as part of the divorce settlement.

The Board shall actuarially adjust the member's monthly retirement or disability allowance to reflect the change.

It is important that a careful study be made prior to retirement regarding your future financial commitments. The staff of The Teachers' Retirement System is available to assist as much as possible in making the best decision, but will not recommend a choice.

There are several facts to consider regarding the optional forms available to you:

- (1) The survivor's benefits described earlier are available only to active members.
- (2) The amount of your monthly retirement benefit will depend upon the optional form you elect. Usually the largest amount is payable under the Normal Form which is the basic formula illustrated earlier. Under the Options, the amount of the reduced benefit will depend on both your age and your beneficiary's age.

NORMAL FORM: Life Only Annuity

This benefit will be payable during your lifetime. In the event of your death prior to receiving benefits equal to your account balance at retirement (your contributions plus interest) the remainder will be refunded to your beneficiary.

OPTION A: Joint and Full to Beneficiary

This benefit will be payable during your lifetime. Upon your death, your beneficiary, if living, will continue to receive the same amount during the remainder of his lifetime.

OPTION B: Joint and One-Half to Beneficiary

This benefit will be payable during your lifetime. Upon your death, your beneficiary, if living, will receive $\frac{1}{2}$ of that benefit during the remainder of his lifetime.

OPTION C: Joint and Two-Thirds to Beneficiary

This benefit will be payable during your lifetime. Upon your death, your beneficiary, if living, will receive $\frac{2}{3}$ of that benefit during the remainder of his lifetime.

OPTION D: Joint and One-Half to Survivor

This benefit will be payable while both you and your beneficiary are living. Upon the death of either, the survivor will receive $\frac{1}{2}$ of that benefit during the remainder of his lifetime.

OPTION E: Joint and Two-Thirds to Survivor

This benefit will be payable while both you and your beneficiary are living. Upon the death of either, the survivor will receive $\frac{2}{3}$ of that benefit during the remainder of his lifetime.

OPTION F: Special Plan

Any actuarial equivalent mutually agreed upon between the member and the Retirement Board.

TABLE A illustrates the benefits payable under the NORMAL FORM of retirement. TABLE B illustrates the benefits payable under Options A, B, C, D, and E and are expressed as percentages of the NORMAL FORM.

Examples of monthly benefits paid under Options A, C, and E, using the following assumptions:

(1) YEARS OF SERVICE	30
(2) FINAL AVERAGE SALARY	\$22,000
(3) MEMBER'S AGE	60
(4) BENEFICIARY'S AGE	57
(5) MONTHLY BENEFIT—NORMAL FORM	\$916.67
$(30/60 \times \$22,000 \div 12)$	

OPTION A: Monthly Benefit

$$\$916.67 \times 85.24^* = \$781.37$$

Upon the death of the member, the same amount (\$781.37) would continue throughout the lifetime of the beneficiary.

OPTION C: Monthly Benefit

$$\$916.67 \times 89.65^* = \$821.79$$

\$821.79 is payable as long as the member is living. Upon the death of the member, the beneficiary would receive two-thirds, or \$547.89, throughout the lifetime of the beneficiary.

OPTION E: Monthly Benefit

$$\$916.67 \times 92.88^* = \$851.40$$

\$851.40 is payable as long as both the member and the beneficiary are living. Upon the death of either the member or the beneficiary, the survivor would receive $\frac{2}{3}$, or \$567.63.

*From Table B.

TABLE A
ILLUSTRATION OF MONTHLY BENEFITS — NORMAL FORM

YEARS OF SERVICE	FINAL AVERAGE SALARY										
	1,000	20,000	22,000	24,000	26,000	28,000	30,000	32,000	34,000	36,000	38,000
5	6.94	138.89	152.78	166.67	180.56	194.44	208.33	222.22	236.11	250.00	263.89
10	13.89	277.78	305.56	333.33	361.11	388.88	416.67	444.44	472.22	500.00	527.78
11	15.28	305.56	336.11	366.67	397.22	427.78	458.33	488.89	519.44	550.00	580.56
12	16.67	333.33	366.67	400.00	433.33	466.67	500.00	533.33	566.67	600.00	633.33
13	18.06	361.11	397.22	433.33	469.44	505.56	541.67	577.78	613.89	650.00	686.11
14	19.44	388.89	427.78	466.67	505.56	544.44	583.33	622.22	661.11	700.00	738.89
15	20.83	416.67	458.33	500.00	541.67	583.33	625.00	666.67	708.33	750.00	791.67
16	22.22	444.44	488.89	533.33	577.78	622.22	666.67	711.11	755.56	800.00	844.44
17	23.61	472.22	519.44	566.67	613.89	661.11	708.33	755.56	802.78	850.00	897.22
18	25.00	500.00	550.00	600.00	650.00	700.00	750.00	800.00	850.00	900.00	950.00
19	26.39	527.78	580.56	633.33	686.11	738.89	791.67	844.44	897.22	950.00	1002.77
20	27.78	555.56	611.11	666.67	722.22	777.78	833.33	888.89	944.44	1000.00	1055.56
21	29.17	583.33	641.67	700.00	758.33	816.67	875.00	933.33	991.67	1050.00	1108.33
22	30.56	611.11	672.22	733.33	794.44	855.56	916.67	977.78	1038.89	1100.00	1161.11
23	31.94	638.89	702.78	766.67	830.56	894.44	958.33	1022.22	1086.11	1150.00	1213.89
24	33.33	666.67	733.33	800.00	866.67	933.33	1000.00	1066.67	1133.33	1200.00	1266.67
25	34.72	694.44	763.89	833.33	902.78	972.22	1041.67	1111.11	1180.56	1250.00	1319.44
26	36.11	722.22	794.44	866.67	938.89	1011.11	1083.33	1155.55	1227.78	1300.00	1372.22
27	37.50	750.00	825.00	900.00	975.00	1050.00	1125.00	1200.00	1275.00	1350.00	1425.00
28	38.89	777.78	855.56	933.33	1011.11	1088.89	1166.67	1244.44	1322.22	1400.00	1477.78
29	40.28	805.56	886.11	966.67	1047.22	1127.78	1208.33	1288.89	1369.44	1450.00	1530.56
30	41.67	833.33	916.67	1000.00	1083.33	1166.67	1250.00	1333.33	1416.67	1500.00	1583.33
31	43.06	861.11	947.22	1033.33	1119.44	1205.56	1291.67	1377.78	1463.89	1550.00	1636.11
32	44.44	888.89	977.78	1066.67	1155.56	1244.44	1333.33	1422.22	1511.11	1600.00	1688.89
33	45.83	916.67	1008.33	1100.00	1191.67	1283.33	1375.00	1466.67	1558.33	1650.00	1741.67
34	47.22	944.44	1038.89	1133.33	1227.78	1322.22	1416.67	1511.11	1605.56	1700.00	1794.44
35	48.61	972.22	1069.44	1166.67	1263.89	1361.11	1458.33	1555.56	1652.78	1750.00	1847.22

TABLE B
OPTIONAL BENEFITS EXPRESSED AS PERCENTAGES OF NORMAL FORM

DIFFERENCE IN AGES	MEMBER OLDER THAN BENEFICIARY					MEMBER YOUNGER THAN BENEFICIARY				
	OPTION A	OPTION B	OPTION C	OPTION D	OPTION E	OPTION A	OPTION B	OPTION C	OPTION D	OPTION E
0	87.05	93.08	90.98	100.00	95.28	87.05	93.08	90.98	100.00	95.28
1	86.45	92.73	90.54	99.03	94.45	87.66	93.43	91.42	101.02	96.14
2	85.84	92.38	90.09	98.11	93.65	88.27	93.77	91.86	102.09	97.03
3	85.24	92.03	89.65	97.24	92.88	88.88	94.11	92.30	103.22	97.95
4	84.64	91.68	89.21	96.42	92.15	89.48	94.45	92.73	104.41	98.90
5	84.06	91.34	88.78	95.65	91.45	90.07	94.77	93.15	105.65	99.89
6	83.48	91.00	88.35	94.92	90.77	90.65	95.10	93.57	106.95	100.90
7	82.92	90.66	87.92	94.22	90.13	91.22	95.41	93.97	108.32	101.95
8	82.37	90.33	87.51	93.57	89.51	91.78	95.71	94.36	109.74	103.02
9	81.83	90.00	87.10	92.95	88.92	92.32	96.01	94.74	111.22	104.12
10	81.30	89.69	86.70	92.36	88.35	92.84	96.29	95.11	112.76	105.24
11	80.79	89.37	86.32	91.80	87.81	93.34	96.56	95.46	114.35	106.37
12	80.29	89.07	85.94	91.27	87.29	93.82	96.81	95.97	115.97	107.51
13	79.81	88.77	85.57	90.76	86.79	94.28	97.05	96.11	117.63	108.66
14	79.34	88.48	85.21	90.28	86.31	94.71	97.28	96.41	119.34	109.82
15	78.89	88.20	84.86	89.93	85.86	95.13	97.50	96.70	121.10	111.00
16	78.45	87.92	84.52	89.40	85.42	95.52	97.71	96.97	122.91	112.19
17	78.03	87.66	84.20	88.99	85.01	95.89	97.90	97.22	124.77	113.39
18	77.63	87.40	83.88	88.60	84.62	96.24	98.08	97.46	126.66	114.59
19	77.24	87.16	83.58	88.24	84.24	96.56	98.25	97.68	128.57	115.78
20	76.87	86.92	83.29	87.90	83.89	96.86	98.40	97.88	130.48	116.95
21	76.51	86.69	83.01	87.58	83.55	97.14	98.55	98.07	132.39	118.10
22	76.17	86.48	82.75	87.27	83.23	97.39	98.68	98.25	134.29	119.23
23	75.85	86.27	82.49	86.99	82.92	97.63	98.80	98.41	136.20	120.35
24	75.54	86.07	82.25	86.72	82.65	97.85	98.91	98.56	138.11	121.45
25	75.25	85.88	82.02	86.47	82.38	98.05	99.02	98.69	140.02	122.53

REFUNDS

If you are no longer employed in a position which would qualify you as a member of the System, you may request a refund of your personal contributions. Termination of a contract does not automatically qualify you for a refund. If you leave a school district for employment in another, you are not eligible for a refund.

Interest will be paid upon withdrawals after July 1, 1973.

If you are eligible and request a refund, you will be sent the necessary application form. No refund will be made until all contributions have been received from the employer.

If you receive a refund of your account, you may be able to get special tax treatment on the refund. Generally, the taxable portion of the distribution from active participation in a plan before 1974 gets long term capital gains treatment. The taxable portion for participation after 1973 is taxed as ordinary income. This ordinary income part may be taxed under the Special 10 Year Averaging Method or you may wish to rollover the taxable portion of your refund into an IRA. See IRS Publication 575 for further information.

If your account represents at least five (5) years of service, you may not wish to withdraw. (See "Vested Right" on page 6.)

SOCIAL SECURITY COVERAGE

Most teachers in Montana have Social Security coverage. Benefits provided by the Teachers' Retirement System are independent of, and in addition to, any social security benefits you may be entitled to receive.

Information regarding social security benefits should be obtained from your local social security office.

TAX-DEFERRED ANNUITY PROGRAM

In 1958 the Internal Revenue code was amended to permit certain tax-exempt employers to deduct a portion of an employee's salary to be contributed to a tax-deferred annuity contract. Sums so deducted were considered nontaxable to the employee at the time the deduction was

made. In 1967, the Internal Revenue Service ruled that contributions on your behalf to a separate fund maintained by a state teachers' retirement system for the purchase of additional retirement benefits unrelated to the basic benefits may constitute contributions toward a tax-deferred annuity contract. The Teachers' Retirement System has established a separate fund for this purpose.

The tax-deferred annuity program is not a program of tax forgiveness, but rather it is designed to delay taxation on a portion of your current income until such time as benefits are received from the program.

ELIGIBILITY

- (1) You must be an active member of the Retirement System.
- (2) The Board of Education, Board of Regents, or other governing body must have adopted an official resolution extending to its employees the opportunity to participate in this program.
- (3) You must enter into a "salary reduction agreement" with the governing board authorizing the board to reduce your salary by a stated amount. The contributions to the program must be made by the employer; it is not possible for you to make the contributions directly. You are not permitted to make more than one agreement with the same employer during the same tax year; however, you may be permitted to terminate the agreement for amounts not yet earned.

CONTRIBUTIONS

The maximum amount which you may contribute will vary with each individual situation. The Internal Revenue Service establishes the rules and regulations concerning maximum contributions, and we suggest you contact that agency for assistance.

INTEREST

Interest is credited each year on June 30 and is computed on each monthly balance. The current rate is 9 percent, compounded annually. The interest rate is not fixed by law, but is set by the Board annually in direct relation to the interest earnings of the System.

ADMINISTRATIVE EXPENSE

There are no administrative charges or initiation fees required for participation in this program. The expenses are paid from investment income.

RIGHTS NON-FORFEITABLE

Your rights under this program are non-forfeitable. There are no contingencies which would cause you to lose your rights to any benefits provided by your contributions. If you should elect to discontinue your participation in the program, or become employed in a position which would not qualify you as a member of the System, you may elect to leave your contributions in your account and continue to enjoy a tax shelter on them. Your contributions would continue to earn interest and benefits would be payable at retirement age.

BENEFITS

The amount of benefits provided by your tax-deferred annuity program will depend upon your age at retirement, your account balance at retirement, and the form of benefit payment which you elect. The benefits will be determined from actuarial tables approved by the Retirement Board. The optional forms of payment under the retirement program are available under the Tax Deferred Annuity Program. Typical examples of amounts payable and accumulated accounts are given at the end of this section.

WITHDRAWALS

There are no loan provisions under this tax-deferred annuity program. Because of restrictions placed on the program by the Internal Revenue Service, it is not possible for a participant to receive a full or partial refund of his account and still participate in the program. In the event you wish to discontinue your participation in the program, you may elect to receive a lump sum refund of your account balance including your personal contributions plus interest accrued to date.

TABLE I

MONTHLY PAYMENT AT RETIREMENT PER \$1,000 OF ACCUMULATED CONTRIBUTIONS

REFUND ANNUITY—Benefits payable during your lifetime. Upon your death, balance of account will be payable to your beneficiary.

RETIREMENT AGE	MONTHLY BENEFIT PER \$1,000
55	7.14
56	7.23
57	7.32
58	7.43
59	7.53
60	7.66
61	7.78
62	7.91
63	8.05
64	8.19
65	8.36
66	8.52
67	8.69
68	8.87
69	9.05
70	9.25

The above rates are based on the expectancy of life and an assumed interest rate of 7%. Each year, a 13th check may be paid to adjust for any difference between the annual rate set by the Board and the assumed rate of 7%.

TABLE II

Projected Account Balance at Age 60 and 65
Assuming \$1,000 Annual Contributions

VARIOUS INTEREST RATES AGE 60

CURRENT AGE	7%	8%	9%
25	138,236.88	172,316.78	215,710.75
30	94,460.79	113,283.20	136,307.54
35	63,249.04	73,105.93	84,700.90
40	40,995.49	45,761.96	51,160.12
45	25,129.02	27,152.11	29,360.92
50	13,816.45	14,486.56	15,192.93
55	5,750.74	5,886.60	5,984.71

AGE 65

CURRENT AGE	7%	8%	9%
25	199,635.11	259,056.48	337,882.45
30	138,236.88	172,316.78	215,710.75
35	94,460.79	113,283.20	136,307.54
40	63,249.04	73,105.93	84,700.90
45	40,995.49	45,761.96	51,160.12
50	25,129.02	27,152.11	29,360.92
55	13,816.45	14,486.56	15,192.93
60	5,750.04	5,886.60	5,984.71

TAXATION OF YOUR BENEFITS

Retirement, disability, and death benefits payable under provision of the Retirement System are subject to federal income tax laws. The information provided below is general and may not apply in your individual case. You should contact your attorney, accountant, or local Internal Revenue office to obtain tax information regarding your benefits.

STATE TAXES

The retirement law provides that any benefits accrued or accruing under the provisions of the Retirement System are exempt from any state, county, or municipal tax of the State of Montana.

FEDERAL INCOME TAX

All benefits, except those provided by your personal contributions, are subject to federal income tax as ordinary income in the year received. Since your personal contributions have already been taxed, benefits provided by them are not subject to tax.

The Internal Revenue Service has two methods of determining the taxable benefits:

(1) THREE YEAR COST RECOVERY RULE

If the benefits received in the first three years equal or exceed your cost (total personal contributions), all benefits until they equal your cost are excludable from gross income. All benefits received thereafter are fully taxable as ordinary income. Most members will recover their cost within three years, and this method will apply.

(2) GENERAL RULE

If the benefits received in the first three years are less than your cost, a portion of each benefit received during your lifetime will be excluded from your gross income. If this method applies, you should contact your local Internal Revenue office for their rules and schedules.

Additional tax exemptions may be available for disability benefits. You should contact your local Internal Revenue Service Office for this information and a copy of their Publication 522, entitled **Disability Payments**.

The tax treatment noted above applies only to the retirement program. Any benefits received under a tax-deferred annuity program are normally taxed in full since your contributions will usually have been made with “before-tax” dollars.

You will receive an informational tax letter after retirement, explaining the taxation of your benefit, as well as advising you of the total amount of your personal contributions (cost basis). The contributions amount is not equal to your account balance, since your account balance includes interest which has been credited to your account. Interest is not excludable for federal income tax purposes. This letter will provide you with all the information you will need to determine whether you will utilize the **Three Year Cost Recovery Rule**, or the **General Rule**, in reporting your benefits for federal income tax purposes. Publication 575, entitled **Pension and Annuity Income**, issued by the Internal Revenue Service, offers a complete explanation regarding your retirement benefit and your federal income tax liability towards the same.

Your retirement benefits will be subject to federal income tax with receipt of your first benefit if you report under the General Rule for federal income tax purposes. No further notification will be issued to you from this office.

Those members who qualify under the Three Year Cost Recovery Rule in reporting their retirement benefits for federal income tax purposes, are notified by The Teachers’ Retirement System as to when their retirement benefits will become subject to federal income tax as ordinary income. This notification is issued prior to the month that you will receive benefits in excess of your personal contributions (cost basis) to the retirement system.

Federal income tax will be automatically withheld from your benefit, if your benefit is \$450.00 per month or greater, if you fail to file a Form W-4P with this office to prevent withholding for federal income tax purposes. This withholding will be implemented at the time your benefit becomes subject to federal income tax as ordinary income. If withholding is implemented on your benefit due to your failure to file a withholding form, we will withhold for federal income tax in accordance with the married monthly tax tables, assuming three exemptions.

Withholding may be implemented on your benefit, or discontinued on your benefit, at any time by your filing a Form W-4P with this office. You have the option of specifying a definite dollar amount to be withheld

from each monthly benefit, or by electing that this office determine the amount to be withheld from your monthly benefit in accordance with the monthly tax tables, your marital status, and the number of exemptions you claim.

By January 31, of each year, you will receive Form W-2P, which gives you the total benefit you have received during the preceding calendar year, and the total amount withheld for federal income tax purposes, when applicable.

QUESTIONS AND ANSWERS

YOUR RETIREMENT ACCOUNT

(1) MAY I BORROW FROM MY ACCOUNT?

No, the retirement law has no provision for personal loans. Your account can be withdrawn only upon termination. (See "Refunds" on page 22).

(2) CAN MY BENEFITS BE GARNISHEED?

No, the retirement law provides that any benefits accrued or accruing are not subject to garnishment, execution, or attachment.

(3) IS ANY PART OF MY REFUND TAXABLE?

Yes. The interest you receive and any contributions reported on the July 1985 report and thereafter.

SERVICE

(1) WHAT ADVANTAGES ARE THERE IN TAKING IMMEDIATE STEPS TO OBTAIN CREDIT FOR ALL SERVICE TO WHICH I MAY BE ENTITLED?

(a) In the event of your death, the survivor's benefit will be based on the number of years which has been credited to your account at the time of your death. If you die prior to completing payment for out-of-state service or redeposit of withdrawals, the service represented by payments received prior to your death will be credited.

(b) If your previous withdrawals are redeposited, the years represented may be used to determine your vested right.

(c) Interest charged will accrue each year the purchase of out-of-state service and redeposit of withdrawals is delayed.

(2) CAN I RECEIVE CREDIT FOR MILITARY SERVICE DURING THE VIET NAM WAR?

Effective October 1, 1981, vested members can receive free service credit of up to 4 years for active military duty for the periods August 5, 1964 through May 7, 1975.

(3) WHAT IS THE MAXIMUM AMOUNT OF SERVICE WITH WHICH I CAN BE CREDITED?

You may receive credit for all years of creditable service to the time of your retirement.

FINAL AVERAGE COMPENSATION

(1) MAY I USE ANY OUT-OF-STATE TEACHING SALARY IN DETERMINING MY FINAL AVERAGE COMPENSATION?

No, only salaries earned in Montana upon which contributions have been made can be used.

BENEFITS

(1) ARE BENEFITS PAID TO ME AUTOMATICALLY WHEN I BECOME ELIGIBLE?

No, you must request the proper application forms from this office, complete them, and return them to this office to become eligible for retirement benefits. (See "Procedure for Application for Benefits" on page 12).

(2) WHEN SHOULD APPLICATION FORMS BE REQUESTED?

You should notify this office at least 90 days prior to your retirement. Applications should be requested immediately in the event of your death or disability. (See procedure on page 12).

(3) *WHEN WILL I RECEIVE MY BENEFIT CHECKS?*

The benefit checks are normally mailed the last business day of each month.

(4) *MUST I DESIGNATE A BENEFICIARY OF MY ACCOUNT?*

No, but it is recommended because in the absence of a designated beneficiary, any death benefit will be payable to your estate and, as such, will be subject to estate taxes.

(5) *MAY I DESIGNATE MORE THAN ONE BENEFICIARY?*

Only if you elect payments under the Normal Form retirement. If an option is elected at the time of application for benefits, only one beneficiary can be designated.

TAX-DEFERRED ANNUITIES

(1) *HOW MAY I PARTICIPATE IN THE TAX-DEFERRED ANNUITY PROGRAM?*

Application must be made at the school where you are currently employed. You will be requested to sign a "salary reduction agreement" with your employer.

(2) *MAY I TRANSFER MY TAX-DEFERRED ACCOUNT TO MY RETIREMENT ACCOUNT FOR THE REDEPOSIT OF PREVIOUS WITHDRAWALS OR THE PURCHASE OF CREDITABLE SERVICE?*

No, only a lump sum refund payable to you is available if you discontinue your participation.

(3) *IF I DISCONTINUE MY PARTICIPATION, MAY I REJOIN THE PROGRAM AT A LATER DATE?*

Yes.

(4) *WHAT BECOMES OF MY ACCOUNT IN THE EVENT OF MY DEATH?*

The balance of your account including interest accrued to the date of your death will be payable in a lump sum to your beneficiary.

TEACHERS' RETIREMENT SYSTEM BUILDING
1500 SIXTH AVENUE
HELENA, MONTANA 59620

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